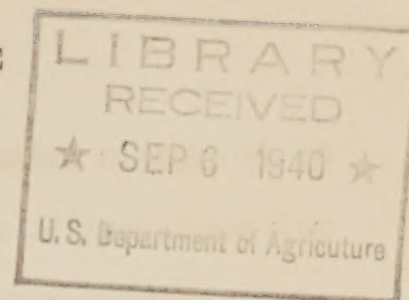


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UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

OUTLOOK FOR FRUITS AND VEGETABLES
ESPECIALLY AS INFLUENCED BY THE WAR



Address by Eric Englund, Assistant Chief, Bureau of Agricultural Economics, U. S. Department of Agriculture, before the International Apple Association, Pittsburgh, Pennsylvania, August 15, 1940.

The influence of the war since its beginning and its possible outcome and aftermath dominate the outlook for fruits and vegetables as for other major groups of agricultural products. Its economic effects include not only those that directly influence foreign demand for farm products but also those that will result from our own defense program.

We can, perhaps, best evaluate the influence of the war on the outlook for fruits and vegetables, first, by reviewing the impacts of the war since it began as related to agriculture as a whole; second, by considering some phases of the outlook under certain assumed alternative possibilities as to the outcome of the war; and, third, by examining the possible effects of our defense program on domestic demand for fruits and vegetables.

Price Influence of this War and of the Last

Last September, producers, tradesmen and consumers generally assumed that war prices and war scarcities were again upon us. Housewives rushed to buy supplies of sugar and flour, farmers withheld shipment of hogs in the expectation of much higher prices, the speculative-minded saw big gains. It was generally assumed that war-boom prices were just around the corner. Clearly we remembered that the last war carried the average farm price of wheat to \$2.56 a bushel, cotton to 37 cents per pound, wool

to 60 cents a pound, hogs to \$19.30 a hundred, and farm prices of fruits and vegetables to two and a half times the 1910-14 level.

Consequently the general level of farm prices from August to September, 1939, rose from 88 to 98 percent of the 1910-14 level, or 11 percent. But as a rule history repeats itself only when the basic elements involved are substantially the same, and even then not necessarily in the same form and pattern. But last fall many elements were very different from those in 1914-1920.

In the first place prices of agricultural products in this country did not rise materially until the war of 1914-18 had been in progress nearly two years. By the end of 1916, or shortly before we entered the war, the general level of farm prices had advanced approximately 40 percent. About that time, inflationary forces caused by the war were taking hold here and throughout most of the world. These forces and war-time demand boosted farm prices to the 1920 peak of about 135 percent above the 1910-14 average, and these high levels were the ones so vividly remembered when the present war broke out.

Larger World Supply of Major Crops.--

In the second place the supply of agricultural products in general, and particularly of some major products, was much different at the outbreak of this war than in 1914.

World production of 12 leading crops in 1939 was about 50 percent greater than in 1914. In the United States production of these crops was about 12 percent greater. Furthermore, last year this larger world supply of agricultural products was more advantageously distributed from the standpoint of the importing countries than a quarter of a century ago.

Last summer, Great Britain and France had a favorable fruit crop. Moreover, in anticipation of possible war they had laid in stores of staple products; and so had other importing countries within the war zone.

Let us look at the general supply situation of some of the major farm products a year ago. The world wheat supply, for instance, after allowing for increased normal consumption, was about one billion bushels greater than at the beginning of the war of 1914-18. The supply of cotton was at least one-third greater. Rice, of which we imported about 2,000,000 pockets in 1914, is now on an export basis; in 1933 we exported fully 2,700,000 pockets.

Large Tonnage of Shipping.--

The situation in regard to shipping was also different when this war began. Shipping routes from surplus producing countries to western Europe were open from the beginning of this war, although the risk and other costs of shipping soon advanced. The gross tonnage of the world's merchant marine was about 50 percent greater than at the outbreak of the last war, and the ships were faster and, therefore, had greater transport capacity in relation to tonnage. The tonnage of dry-cargo ships increased 30 percent; the wet-cargo tonnage (tankers), representing comparatively few ships in 1914, increased more than seven times.

At the rate of destruction of vessels so far in the present conflict, it would take perhaps six more years to reduce the world's tonnage of shipping to the level of 1914,--even with no allowance for new construction above normal replacement. The rate of sinking, beside being uncertain because of conflicting claims, may change materially at any time. It appears now that the limiting factor in transporting our

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products abroad is not the lack of shipping, but the scarcity of convoy. This scarcity has become greater with the disappearance of the French navy, leaving the task of convoy entirely to the British.

Although this abundance of shipping space at the beginning of the war assured us of bottoms for handling our exports, it also maintained competition from other surplus-producing countries. If there should be an acute shortage of bottoms and if the convoy problem should become much more difficult, it is likely that shipping would be concentrated more on the shorter trade routes, as happened in the last war. This would mean increased demand for products from North American sources and less from sources more distant from the British market. Meanwhile, the fall of France and the recent extension of the British blockade to virtually the whole continent of Europe, have practically closed that area as a market and limited our European market outlets largely to such shipments as go through under convoy.

Allies Conserved Dollar Buying Power. - Still another significant factor related to outlets for our farm products abroad made the situation different in the past year from that of 1914. This difference lies in our credit policy toward belligerents and war debtors. In the Johnson Act and in our neutrality legislation, we adopted the policy of "cash and carry". France and Britain from the beginning had rather large balances of dollar exchange available for purchase in this country. They had to depend on this country for many articles of war--airplanes, munitions, etc.--which they could hardly get from other countries. But in other countries, where credit was available, France and Britain did not find it necessary to limit their purchases of agricultural products to a cash and carry basis. It was also desirable for them to buy farm products from their colonies and dominions, and from countries that might otherwise have sold more to Germany. Therefore, it was quite understandable that they should conserve their available dollar exchange here for the purchases of war materials which they could not get elsewhere, and so buy less farm products here since they could get them from other countries, without drawing on the available dollar exchange.

Unified Buying by Allies. - Finally, a further difference between this war and the last, in relation to our farm products, is in the fact that France and England, early in this war, resorted to unified buying through commissions whose purpose it was to buy carefully and with as little price competition as possible. From almost the very beginning, this controlled purchasing eliminated apples from the list of imports. The effect on the outlet for our apples is very well known to this Association. The Allied countries stopped buying apples partly because

they had a fairly good fruit crop; partly because shipping apples was rather more difficult than shipping staples under wartime conditions; and perhaps because apples and other fresh fruits were considered among the less necessary supplies to peoples at war compelled to economize in many directions.

Effects on Exports of Fruits and Vegetables

The following quotation summarizes the recent export situation with reference to the principal classes of fruit:*

Fresh deciduous fruit exports suffered greatly from the war, since these commodities are looked upon as quasi-luxuries by import-control authorities in the belligerent countries. France, usually an important market for the United States pears, took none whatever during the 6 months of the war. The United Kingdom cut purchases 60 per cent. Shipments to Germany were, of course, completely cut off. Canadian purchases were tripled over a year earlier, but this was the only important market to which any increase took place. Total pear exports during the 6 months were about half of their level a year earlier. Apple exports declined even more sharply -- from over 9 million bushels during the 6-month period from September, 1938, to February, 1939, to about 2.5 million bushels during the 6 war months. Shipments to the United Kingdom were reduced 75 percent, while those to the Netherlands were practically stopped.

Citrus fruit exports have declined relatively less than those of other fresh fruits, since they are marketed chiefly in Canada where war controls have on the whole been less restrictive thus far than in the United Kingdom and France.

Dried fruit exports had been expected to expand somewhat as a result of the war since these commodities are of a concentrated nature and were in demand during the World War. The reverse has been true, however. Exports of both prunes and raisins to the belligerent countries as a whole have been reduced from their level a year earlier, and those to neutral European countries

*From "A Decade of Agricultural Trade, and the Present Outlook", Bureau of Agricultural Economics, Editorial Reference Series, No. 6, June 21, 1940.

have also declined. Important factors in decreased takings of raisins by the United Kingdom have been the purchase by that country of the Turkish raisin surplus and increased imports from Australia.

Cushioning effect of Surplus Removal. - The depressing effect of the Allied decision to stop buying apples here would have been even greater, had it not been for the surplus-buying program in this country, under which about 9,300,000 boxes of apples have been bought since last October for distribution among low-income groups. In addition, the stamp plan has expanded consumption of apples and helped to cushion the adverse effect of the war on this commodity. From April 29 to June 1, 1940, "blue stamp" purchases of fruits and vegetables amounted to 15.3 percent of all purchases. Incidentally, in that period of about one month the purchases included 2,138,000 pounds of apples. April was about the low month of the purchase of fruit, compared to the total of all purchases. In one month of largest buying of fruit and vegetables, the total amounted to about one-third of all "blue stamp" purchases.

Until May, 1940, there was a heavy export movement of canned fruits, including canned apricots, grapefruit, and fruit salad, most of which went to the United Kingdom. But during May and June, the export movement was curtailed sharply as a result of import controls applied by the British Government.

Supply and Export of Vegetables. - The marketing of fresh vegetables, of which we do not export significant quantities, was less affected by the war than was the marketing of apples and other fruits. Our exports of canned vegetables, however, has been in considerable quantity, and because of their greater suitability for wartime shipment, it seems possible

that these exports may continue, depending chiefly on the operation of British import quota system.

Normally the United Kingdom takes 85 percent of the United States' exports of canned fruits. With a convoy system in operation for ships plying between the United States and the United Kingdom, the export of some canned fruits and vegetables would be possible. Exports of these commodities to continental Europe must for all practical purposes be considered stopped. It is doubtful whether exports to countries not now directly involved will be more than normal.

Meanwhile production of vegetables in this country during last year was about normal, the latest crop reports indicating that it will be about normal this season. Production of our principal fruits is indicated to be about 15 percent above the 10-year (1929-38 average) because of a sharply increased output of citrus, cherries, and pears. This means that larger quotas must be packed as dried or canned fruit for exportation, or larger quantities moved as canned, dried, or fresh fruit into an expanded domestic consumption. Whether the indicated production can be marketed at favorable prices depends largely upon the level of domestic demand--which we shall discuss later--and upon the removal of larger quantities through distribution among low-income groups in this country.

Dried Fruit. - During the period 1934-38, Continental Europe took an average of 88 percent of the dried apples, 80 percent of the dried apricots, 77 percent of the dried pears, 62 percent of the dried prunes, and 39 percent of the raisins exported from the United States. Under existing circumstances in Europe few if any exports of dried fruits to

Continental Europe are anticipated during the 1940-41 season. Exports of these commodities to the United Kingdom will depend upon the British buying policy, effectiveness of the convoy system, available shipping space, and of course continuance of the war.

Raisins. - Normally about 42 percent of the United States raisin exports go to the United Kingdom, but now import quota restrictions are in effect which have reduced our exports sharply. Also at present the United Kingdom is committed to take all available exportable surpluses of raisins and currants produced in South Africa and Australia; and the raisin production of these British countries this spring is more than sufficient, so long as transportation is available, to meet the needs of the United Kingdom.

The agreement between the United Kingdom and Turkey concerning the British purchases of Smyrna raisins is practically ineffective now because of the spread of the war to the Mediterranean Basin. The raisin output in the three chief countries of this basin--Turkey, Greece, and Spain--now will most likely find its way to other markets, probably to Germany and those countries which are in whole or in part under her domination.

Our remaining exports of raisins (about 20 percent) usually go to non-European countries which in normal times buy relatively small quantities of this fruit from Mediterranean sources. It is possible that their purchases may in part be made in the United States. Exports to Canada may increase depending on wartime restrictions and the availability of Australian supplies. It is significant that about 60 percent of the usual foreign market for our raisins would be available, if the British

should relax the import quota restrictions.

Prunes. - The situation with regard to prunes is substantially the same as that for raisins in respect to exports to European and to other countries. Production of prunes in other parts of the world is confined mainly to France and to the Danube Basin countries, all of which are now under German economic domination. Sketchy reports from the Danube Basin indicate that the 1940 production of prunes is considerably below normal and that whatever exportable surplus is available will be sent to Germany and to countries in its sphere of influence.

France, normally one of the best customers for American prunes, at present must be considered out of the market. Information is not available relative to the 1940 French crop, but the severe winter in Europe, and other factors, suggest the probability of a small crop this year. Exports to the United Kingdom, which normally account for 20 per cent of the total from the United States, are now restricted by the import quota system.

Exports of American prunes to countries not shut off by the war probably will equal those of the recent years since relatively few Danube Basin or French prunes were shipped to these countries, but such exports face increased cost of transportation and possibly other difficulties as yet unpredictable.

Apricots. - The export situation of dried apricots is the same as of prunes and raisins with the exception that there is relatively little foreign competition in production and that the United Kingdom was not as important a buyer of this product as was France. The California apricot crop is currently reported as being considerably below that of

last year and the production of dried apricots may, therefore, be considerably smaller than a year ago and consequently the export surplus will be unusually small.

The export prospects for dried apples, pears, and other minor dried fruits are about the same as shown above for apricots, prunes and raisins.

These statements indicate the outlook as it appears at this time, but the situation is subject to sudden changes due to the many unpredictable factors involved.

Outlook Depends on Length and Outcome of War

As mentioned earlier, the outlook for fruits and vegetables as influenced by the war, like the outlook of other major agricultural commodities, depends on how and when the war will end, and on the aftermath of the war especially as related to international trade in these products. The outlook also depends, of course, on domestic demand, which itself is influenced by the war.

It would be rash indeed to attempt to predict how and when the war will end. It was, I believe, generally assumed here at the beginning and for some time, that history would repeat itself in an Allied victory, and opinion with reference to its economic effects was of course influenced by that assumption. Later events, however, have injected new uncertainties in the minds of many. The best we can do now is to consider war impacts in relation to certain assumptions as to the war itself. These assumptions are for the purpose of discussion only and are in no sense predictions of how and when the war will end.

Assumptions, Not Predictions.--

Three possibilities will be considered:

First, assume (without prediction) an early German victory so complete that it would put the continent of Europe, the Mediterranean and much of Africa under the control of the Berlin-Rome Axis.

Second, assume (without prediction) a negotiated peace, a "draw" as it were, leaving the British Empire largely intact, the British Isles unconquered, and with Britain still a major naval power.

Third, assume (again without prediction) a long war with the final alignment of nations quite unforeseeable and with ultimate victory on one or the other side--not a "draw"--but with the sort of mutual

economic exhaustion that might come with such an end of the war.

We shall attempt to review some of the probable impacts of the war upon agriculture in general and particularly upon fruits and vegetables under each of these assumptions.

If Totalitarianism Wins.--

If Germany should win a full victory, it follows, in all probability, that the entire continent of Europe, the Mediterranean, and the larger part of Africa would be dominated by the Axis powers under the leadership of Germany. This probably would result in a sharp reaction to market outlet and prices for our principal international commodities--cotton, tobacco, wheat, fruit, and pork. Although a Europe so dominated undoubtedly would continue to need large supplies of these commodities, it is doubtful that she would have the necessary buying power in terms of dollars, or even the official inclination, to buy large quantities of our surpluses of these products through normal channels of trade. Europe's purchases more probably would be made through bilateral agreements under which imports would be handled by centrally dominated agencies. These agencies in effect would be arms of the government dominating Europe. This is consistent with German policy before the war and with recent semi-official pronouncement from German sources.

The buying power of Europe would then consist in the first instance very largely of such remains of the credit of European countries in the United States as may then be available to finance trade. The extent to which the countries coming under the domination of Germany would be free to use this credit is problematical, in view of questions that may arise with reference to war debts, international investments,

etc. The effort undoubtedly would be made to build up buying power through exports from Europe to countries willing to enter into some kind of bilateral trade agreements.

A Europe so dominated, and especially Germany, would want to export mainly industrial products in exchange for raw materials and foodstuffs. Our imports from Europe in the past have been largely industrial. But is it likely that we would soon enter into agreements under which we could take from Europe the usual or even larger quantities of such products? This question certainly cannot be answered even approximately.

It is apparent that our largest agricultural export market, which previously took nearly three-fourths of our farm exports, would be under the domination of a single government. It is possible that a Europe so dominated would turn to Latin America countries and other surplus-producing areas, offering her industrial products in exchange for agricultural products and raw materials. In recent years Latin America has sold to Europe more than 50 percent of her exportable agricultural surplus. These countries are less developed industrially than we are and, therefore, might afford a better chance for arrangements under which their agricultural surpluses would be exchanged for Europe's industrial products.

Central control over a market, which has taken nearly three-fourths of our exports and more than half of those of Latin America, would present to the exporting countries a formidable concentration of unified buying. It is partly in an effort to face such a prospect more effectively that steps were taken at the recent conference in Havana toward closer collaboration among the American republics for their mutual advantage.

The German minister of economics and president of the Reichsbank, Dr. Funk, not long ago said in effect, that a German-controlled Europe

could get along without trading with the United States.* While statements such as this could not well be taken without qualifications in a time when so much of the war is being fought on the propaganda front, they nevertheless suggest something of what may be attempted, with a bearing on our agricultural exports in the event of a complete German victory. At least they suggest that we as an exporting country would be dealing, not with independent firms and individuals in Europe buying agricultural products from us, but with a totalitarian government or institutions acting for it. This would constitute a colossal concentration and regimentation of trade, beyond anything we have yet experienced.

If A Negotiated Peace.--The second of our assumed possibilities as to the outcome of the war is that of a negotiated peace, with the British Isles unconquered and with the Empire largely intact. This obviously would present, so far as our exports are concerned, a very different picture. Yet we should not assume that even with such an outcome we should return to normal trade relations--by "normal" meaning the sort of arrangement that has prevailed even under the extensive trade restrictions of the past two decades. But even in these markets we should probably be confronted with a much more severely channelized trade than we experienced before the present war began. It is unlikely that such control devices as purchasing commissions, exchange quotas, preferential treatments, etc., would be demobilized soon upon the conclusion of a negotiated peace. At any rate, the British market and perhaps some other European markets would be open in the sense of being outside of totalitarian domination.

* The New York Times, July 26, 1940.

With reference to either of these two possible outcomes of the war--a German victory or a negotiated peace--it appears that we would be confronted for some years at least, with far greater regimentation of international trade than we have experienced heretofore, but with less regimentation in the event of a negotiated peace. However, we should still be confronted with the probability that for some time international trade would be more a matter of dealings between governments and between their control agencies than we have been accustomed to even of late. Meanwhile it should not be necessary to give up altogether the hope of an eventual return to some form of liberalism in trade. But that may come among nations only with the return of mutual confidence and good will which now exist mainly in hope and faith.

If Long War, and if Liberalism Wins.- The third of our assumed possibilities is that of a long, drawn-out war with the end very uncertain both in time and in final alignment of nations, and with one or the other side victorious, and both near economic exhaustion. In reference to such an eventuality, it is even more difficult to make any sort of prediction as to economic impacts including effects on agriculture. But in the case of a long, drawn-out war the possibility of price inflation would become greater. In this country we have not as yet experienced even a visible tendency in that direction. For this there may be many reasons. Our productive capacity is as yet far from utilized to the fullest. We still have unused plant capacity in many industries, and we still have unemployment--perhaps not less than seven millions unemployed. We probably should not expect any significant tendency toward price inflation until the present capacity is much more fully utilized--until the general demand for goods begins to press against the existing capacity to produce.

Even this would not necessarily result in serious inflation, for we have more control over inflationary tendencies now than we had some years ago. In previous great modern wars, price inflation has in effect served to bend the whole economy to the war effort, and this may now be achieved by more direct governmental effort. Prevention of inflation would make most of the economic aftermath of war less severe. Yet we should not rest too assured that inflation of prices could be avoided in the event of a long war, for this might relax our vigilance. If a long war should not result in price boom, it would be to us a new

experience. In the hundred and fifty years of our history we have had three great mountain-peaks of prices; the first associated with the Napoleonic wars, the second with the Civil War, and the third with the World War of 1914-18.

In the event of a long, drawn-out war, it is most hazardous to predict now what might come. We can know little or nothing now about the kind of a peace it would bring. Final victory for the nations that still hold to the principle of liberalism, even though they accepted regimentation of international trade as a current necessity, would leave us closer to the ultimate return of liberalism in trade.

No Solution of Farm Problem through the War.- If the war should prove long, only one prediction in terms of outlook for agriculture could be made with certainty: The agricultural problems with which we are now wrestling--production adjustment, conservation of agricultural resources, marketing improvement, price relationships, etc.--would still be with us. I see no possibility that this war, whether long or short, will really solve any of our present agricultural problems. It is more likely to intensify them and create new ones.

In our effort to deal with those problems we have, perhaps, certain advantages now which we did not have 20 years ago. Our agricultural information is far more extensive and we have, let us hope, a broader understanding of the economic forces involved; farmers are in a better position to work together for common aims; and public policy has produced programs and organization that may be adapted to deal with various agricultural problems as they arise.

Influence of Defense Program on Outlook

An indirect effect of the war on agriculture, including the outlook for fruits and vegetables, will appear through the influence of our defense program on business activity and consumer demand in this country. It is well known to all that there is a direct relationship between industrial activity, consumer income and domestic demand for farm products. As employment, wages and income of workers increase, the home market improves.

The degree of improvement resulting from a given increase in buying power varies with different commodities. When consumer income rises or falls, the people will increase or reduce their purchases of one commodity more than of another. Fruits and vegetables as a general class, are sensitive to changes in consumer demand. It may be expected, therefore, that the domestic demand for fruits and vegetables will improve significantly with an increase in consumer buying power.

The question may occur to many of you: What effect will our defense program have on the buying power of consumers? This bearing will appear, as in fact it already has to some extent, in the effect of the program on industrial activity, employment, wages and consumer income generally.

Stimulus to Employment and Demand.- Our defense program will unquestionably increase the demand for labor and expand activity in factory, transport, trade and many other lines. The defense forces will require many men. All of these demands will reduce unemployment and increase the money income of the masses of the people. This should

mean stronger home demand for agricultural products, including fruits and vegetables, and this improvement is likely to be felt more in the commodities which are not on an export basis.

The increased money income to consumers of course will not be distributed uniformly, but the wider its distribution among the masses the greater the probable effect on demand for farm products. It would be expecting too much to suppose that the unemployed, under-employed and the underfed will disappear altogether. Hence the programs designed to improve buying power probably will be continued with modification according to circumstances.

National Defense Through Work and Sacrifice.- Although substantial improvement in business activity and consumer demand may be expected when the defense program gets under way, we should not indulge in the easygoing assumption that this huge national defense effort will really cost us nothing and that we shall get from it not only national defense but also prosperity, better home markets, and better times in general. It may be that much will be accomplished for national defense by utilizing some of our plant capacity, labor, and other resources, as yet not fully employed, and by increasing the tempo of our economic machine, without reducing the standard of living of the people as a whole.

It is possible, however, that the world situation may come to such a pass that our national defense effort will have to be made on a scale so large as to reduce, for a time, rather than increase, the average standard of living. Adequate national defense cannot be bought with spare change, but only with work and sacrifices. To the extent

that our defense program may directly or indirectly use more fully our underused physical resources, put to work idle men, give full employment to the underemployed, and cause the underworked to work more nearly to their capacity,- to that extent we may arm ourselves for defense without reducing the standard of living.

But the requirements of defense--and these requirements must now come first in our economic calculations--may conceivably become so great as to crowd against the present limits of our productive capacity. Then we shall have to draw up our belts, as it were; live less well and work harder,- all to the end that we may be ready to defend our right to live as a free people and to strive for higher prosperity under our free institutions.

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